

Lunnon Metals Ltd

(LM8 \$0.53) Speculative Buy - Initiation of Coverage

EUROZ HARTLEYS

Analyst	Date	Price Target
Steven Clark	13 th August 2021	\$1.00/sh

Initiation of Coverage

Key Points

- We remain drawn to the Nickel thematic: growing battery demand at the margin adding fundamental supply-demand imbalances driven by traditional consumption but a lack of upstream discovery and development;
- This is further nuanced by the economic bias and ESG tilt towards Nickel Sulphide as the ore source for battery grade Nickel Sulphate;
- LM8 recently listed after securing Kambalda nickel assets warehoused within Gold Fields Ltd subsequent to WMC Resources Ltd's sale of the project area in 2001;
- The Kambalda Nickel Project (KNP) hosts the high-grade Foster and Jan Ni mines, last worked by WMC in 1994 and 1986 respectively;
- The KNP currently hosts a Resource base of 39kt @ 3.2% Ni, pertaining only to the Foster mine upon pre-IPO conversion to JORC status;
- A further 32kt of Ni Resources are currently JORC non-compliant, with limited work required to facilitate JORC 2012 compliance;
- The KNP ground has been underexplored for Ni prospectivity, with modern exploration techniques (i.e. downhole EM surveying) yet to be employed;
- We anticipate testing of multiple established greenfield and more mature brownfield exploration targets to materially expand the KNP Resource base;
- A contractual relationship with BHP Nickel West for offtake and existing infrastructure proximal to existing Resources provides a capex light pathway to restarting operations;
- Made all the more strategically important by the recently announced Tesla offtake agreement with BHP Nickel West;
- Noting a tight register (~35% free float, Gold Fields Ltd substantial at 31.7%), we expect LM8 to materially rerate on delivery of the below catalysts:
 - Periodic historical Resource conversion;
 - Regular updates from the now commenced 2-year 28km drill program and adjacent DHTM survey results;
 - Feasibility studies on the restart of operations leveraging MCR's CY22 restart of the Kambalda Nickel Concentrator;
- Consequently, LM8 offers significant leverage to rising Ni prices but importantly via the drill bit, complemented by a technically strong, commercially shrewd and proven management team;
- We derive a valuation of \$1.00/sh, based on the application of a peer group avg. EV/Resource multiple to an assumed expanded Resource base containing 83kt of Ni;
- We initiate coverage of LM8 with a Speculative Buy rating and Price Target of \$1.00/sh.**

Lunnon Metals Ltd	Year End	30 June
Share Price	0.53	A\$/sh
Issued Capital		
Ordinary Fully Paid	141.2	m
Options	5.3	m
Dil FP Ordinary	146.5	m
Market Capitalisation	74.9	A\$m
Enterprise Value	61.4	A\$m
Cash (Jun-21)	13.5	A\$m
Debt (Jun-21)	-	A\$m

Directors

Liam Twigger	Non-Exec Chairman
Edmund Ainscough	Managing Director
Ian Junk	Non-Exec Director
Ashley McDonald	Non-Exec Director

Substantial Shareholders

St Ives (Gold Fields Ltd)	31.7%
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Company Details

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Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to LM8 during the last year. Euroz Hartleys has received a fee for these services.

This analyst declares that he has a beneficial interest in LM8.

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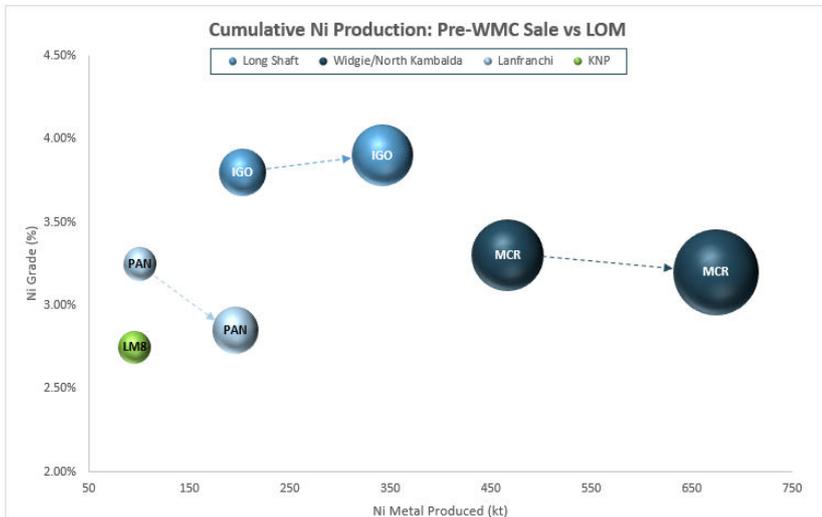
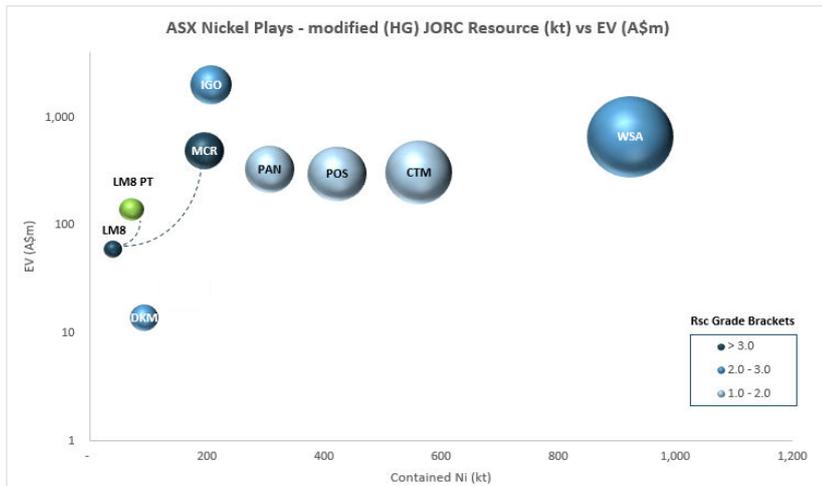
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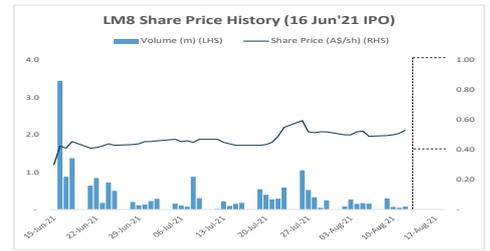


Key Variables

A\$/sh		EV/Rsc Multiple (A\$/t)						
		1,400	1,500	1,600	1,700	1,800	1,900	2,000
KNP Resources (Contained Ni, kt)	60	0.57	0.61	0.66	0.70	0.74	0.78	0.82
	65	0.62	0.67	0.71	0.75	0.80	0.84	0.89
	70	0.67	0.72	0.76	0.81	0.86	0.91	0.96
	75	0.72	0.77	0.82	0.87	0.92	0.97	1.02
	80	0.76	0.82	0.87	0.93	0.98	1.04	1.09
	85	0.81	0.87	0.93	0.99	1.04	1.10	1.16
	90	0.86	0.92	0.98	1.04	1.11	1.17	1.23



Our Share Price Sensitivity



Our Market Sensitivity

Price Target: \$1.00/sh
Valuation: \$1.00/sh

Bull Scenario: \$1.50/sh

Brownfield and greenfield exploration success and successful conversion of historical JORC non-compliant resources underpin Resources containing ~100kt Ni. Nickel prices exceed EH forecasts and battery-driven Ni Sulphide demand outperforms against expectations.

Base Scenario: \$1.00/sh

Brownfield and greenfield exploration success and successful conversion of historical JORC non-compliant resources underpin Resources containing ~80kt Ni.

Bear Scenario: \$0.40/sh

Exploration results and conversion of JORC non-compliant Resources overwhelm against expectations. Nickel price declines in the short to medium-term and sentiment weakens.

Company Summary

Lunnon Metals Ltd is a mineral resource exploration company which owns a highly prospective nickel and gold project in Western Australia, situated in the heart of the Kambalda Nickel District. The Company's primary aim is to become the owner of sufficient nickel mineral resources, via discovery and development, to be a key player in the resurgence of the nickel sector.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz Hartleys.

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Investment Case

We like nickel supply-demand fundamentals highlighting the clear downward movement in inventories over the past couple of years as a consequence of steady stainless steel derived consumption growth and a lack of new supply. We believe that growing demand from the Electric Vehicle (EV) and small-scale renewable power storage battery manufacturing sector will further add to the supply-demand imbalance. We differentiate our Ni focus to the sulphide producers, highlighting the amenability of sulphide hosted Ni to conversion to Ni Sulphate as the Ni constituent in batteries for EVs.

LM8 offers excellent leverage to the Ni Sulphide thematic given its existing high-grade Ni inventories with low risk line of sight to material Resource base expansion. In addition, mining infrastructure, extensive underground development and a commercial agreement with BHP Nickel West that will leverage Mincor Resources Ltd's (MCR.ASX) restart of the Kambalda Concentrator (~25km from the KNP) provide line of sight to recommencement of operations and cash flows.

Through our existing coverage of the WA Nickel Sulphide sector, we are of the view that BHP Nickel West is 'hungry' to secure reliable high grade, high Fe:Mg ratio sulphide feed. This need has been arguably further enhanced by BHP Nickel West's recently executed offtake agreement with Tesla. A Jul'21 all-cash bid for Noront Resources (NOT.TSXV) at a material premium (69% to prior closing price, 75% premium to preceding Wyloo Metals bid) further demonstrates BHP's appetite for shored up future Ni supply and underpins our conviction in LM8's upside potential.

LM8's tenure is located within the world-renowned Kambalda Nickel District. More broadly, the fragmented ownership of the Kambalda District has translated to minimal greenfields exploration in nearly 30 years subsequent to the carve up of the WMC portfolio. Largely unexplored for the past 25 years, LM8's land package already presents numerous brownfield exploration opportunities beyond low risk Resource extensional drilling. The comparison of actual production vs pre-WMC sale production from the suite of Kambalda Ni assets divested by WMC in the early 2000s bodes well for the organic growth potential of the KNP, many of which became company-makers (i.e. Long and Otter Juan) whilst the KNP remained locked up in a gold-focused corporate.

Management have an extensive history with the assets and/or previous operations in the Kambalda District. Intimate knowledge of the tenure and historical database will see LM8 focus on low risk, high impact near mine and regional exploration targets. A comprehensive 2-year drilling campaign comprising 12.6km of diamond and 15.4km of RC drilling should suffice for first and second pass testing of all Ni and Au targets under LM8's tenure. This will provide continuous, high impact news flow and impetus for Resource growth and potential new discoveries prior to the commencement of mine dewatering.

The key risk to our investment thesis is nickel price, however, noting the emerging and compelling marginal demand driver being EV battery consumption growth - we are somewhat circumspect about commodity price risk over the medium term. Further exploration success will help upward share price momentum and LM8 does not lack opportunity in this respect.

LM8 screens inexpensively against its established Ni developer peers. We view that with modest exploration success, current Ni prices will support a restart development concept, adding appeal on account of a defined path to cashflow. The KNP is rich in existing infrastructure, with existing resources accessible via existing development, well-established road infrastructure, and most significantly, in our view, proximity to the soon to be restarted Kambalda Concentrator.

Strong supportive EV thematic

Leveraged to Ni Sulphide thematic

BHP Ni West needs more high Fe:MgO ore

Attractive address with proven history

Management pedigree with detailed historical database

Limited commodity price risk over the medium term

Inexpensive vs ASX-listed Ni developers

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Our \$1.00/sh SOTP valuation ostensibly reflects the peer average EV/Resource multiple, but accounts for the additional historical Resources pending conversion to JORC 2012 compliance and modest exploration success. Although our nominal valuation of exploration potential may appear conservative, it is partially reflective of our expectation that a conceptual ~80kt Ni resource base should more than suffice in underpinning a restart decision under buoyant Ni prices.

\$1.00/sh val with low risk growth

Valuation

Valuation: \$1.00/sh

Price Target: \$1.00/sh

Our SOTP Valuation for LM8 is \$1.00/sh, reflective of the application of a peer group avg. EV/Resource multiple to an expanded mineable inventory containing 83kt Ni.

	A\$m	A\$/sh
Kambalda Nickel Project	116.7	0.80
Exploration	36.5	0.25
Corporate Overheads	(19.0)	(0.13)
Cash (Aug-21e)	12.5	0.09
Total	146.8	1.00

Our assumed expanded KNP Resource base comprises:

- JORC-compliant Resources of 39kt Ni;
- Historical JORC non-compliant Resources of 24kt Ni, assuming a 75% conversion of the existing 32kt inventory of JORC non-compliant Resources to JORC 2012 status;
- A conceptual exploration target of 23kt Ni contained, comprising the midpoint of LM8's disclosed East Cooee exploration target and an additional 8kt Ni delineated around existing Foster mine Resources.

Our valuation of the KNP and associated exploration potential rests on the following assumptions:

Existing KNP Resources (contained Ni)		
Existing JORC 2012 compliant Resources	kt	39
Historical JORC non-compliant Resources	kt	32
Conversion rate of historical Resources to JORC status	%	75
Remaining Resources converted to JORC status	kt	24
Assumed JORC 2012 compliant Resource Base	kt	63
Peer group avg. EV/Rsc multiple		
	A\$/t	1,853
Implied valuation - KNP Existing Resources	A\$m	116.7
Exploration Value		
East Cooee exploration target (tonnage)	t	500 - 750
East Cooee exploration target (Ni grade)	%	1.25 - 2.50
Contained Ni per guidance midpoint	kt	12
Foster additional Resources	kt	8
Total exploration target	kt	20
Peer group avg. EV/Rsc multiple		
	A\$/t	1,853
Implied valuation - KNP Exploration	A\$m	36.5

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Our EV/Rsc multiple is derived from the below ASX-listed peer group:

Company		Price A\$/sh	Mkt Cap A\$m	Net Cash A\$m	EV A\$m	Resource kt	Reserve kt	EV/Rsc A\$/t	EV/Rsv A\$/t
Independence Group*	IGO	9.89	7,489	484	2,151	272	216	7,899	9,974
Nickel Mines Limited	NIC	1.10	2,754	20	2,734	2,192	0	1,247	na
Western Areas Ltd	WSA	2.62	843	151	692	922	249	751	2,775
Mincor Resources NL	MCR	1.27	554	59	495	196	71	2,524	6,957
Panoramic Resources	PAN	0.18	359	25	334	257	126	1,301	2,651
Legend Mining	LEG	0.08	243	35	208	0	0	na	na
Centaurus Metals	CTM	0.96	332	20	312	618	0	506	na
Poseidon Nickel Ltd	POS	0.12	361	30	331	446	43	743	7,790
Lunnon Metals Ltd	LM8	0.53	75	13	62	39	0	1,588	na
Duketon Mining Ltd	DKM	0.37	44	30	14	118	0	118	na
Average								1,853	6,029

Source: Euroz Hartleys, Bloomberg, priced as of close on 12th August 2021.

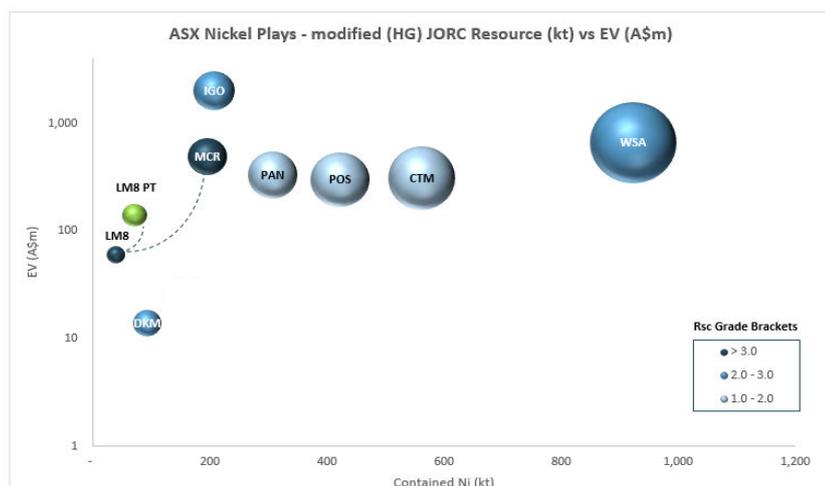
*EV Based exclusively on Nickel assets

**Production, Resources, & Reserves stated in respective equivalent metals unless stated otherwise

The sensitivity of our valuation to the above-mentioned inputs are included below as a reference point:

A\$/sh	KNP Resources (Contained Ni, kt)	EV/Rsc Multiple (A\$/t)						
		1,400	1,500	1,600	1,700	1,800	1,900	2,000
60		0.57	0.61	0.66	0.70	0.74	0.78	0.82
65		0.62	0.67	0.71	0.75	0.80	0.84	0.89
70		0.67	0.72	0.76	0.81	0.86	0.91	0.96
75		0.72	0.77	0.82	0.87	0.92	0.97	1.02
80		0.76	0.82	0.87	0.93	0.98	1.04	1.09
85		0.81	0.87	0.93	0.99	1.04	1.10	1.16
90		0.86	0.92	0.98	1.04	1.11	1.17	1.23

Directionally, we would view PAN and (particularly on account of proximity) MCR as the aspirational peers to LM8. We would expect a similar rerating of LM8 should Resource growth and/or discovery underwrite a development restart strategy.



Sources: Euroz Hartleys, Company Reports, selected higher grade Ni sulphide deposits only.

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Share Price Catalysts

We anticipate an uplift to our valuation as additional success is yielded via the drill bit. Sentiment remains the clear driver of the resources sector and in particular, most notably those equities with commodities aligned with the current strong overprint of ESG and EV thematic. We consequently view Ni price as the most pertinent share price catalyst over the near to medium term.

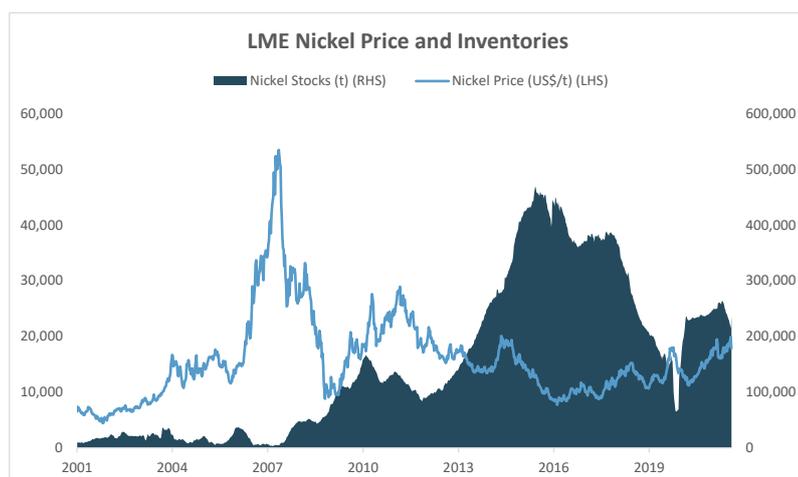
Beyond which, exploration success should attract market interest. A significant tenet of the LM8 investment thesis relates to the location and critically, the underexplored nature of its landholding. The Company has identified numerous drill ready targets ranging from near mine resource extension and infill, to greenfield exploration on-trend with existing discovered mineralization. Longer term, growth to mineable inventories and critical mass to underpin development will attract longer dated, fundamental investment as the Company provides line of sight to cash generation.

We anticipate upward share price momentum to be driven by a combination of:

- On-going historical Resource review and conversion (CY21 onwards);
- Drilling activity and assay results (CY21 onwards);
- Exploration discovery and/or brownfields success (on-going);
- Commencement of dewatering of the top ~250m of the Foster mine (contingent on exploration results);
- Initiation of drilling from underground platforms;
- Economic evaluation of a restart;
- Ni price and EV thematic-driven sentiment;
- Potential consolidation within the Kambalda region.

Nickel Market Fundamentals

One of the key tenets behind our conviction on nickel equities is basic supply-demand fundamentals. Whilst the market is not yet at the point of the 2000s – whereby low inventory combined with a rapid escalation in consumption by China saw supply deficits drive prices to US\$60,000/t – supply-demand fundamentals look supportive to Ni prices over the medium to long term.



Source: IRESS

The lack of incentive pricing since 2011 (and arguably the GFC) has resulted in underinvestment in upstream identification and development of new sources of Ni sulphide supply. Following 2015, four consecutive years of deficit were recorded, illustrating the producers' inability to meet demand.

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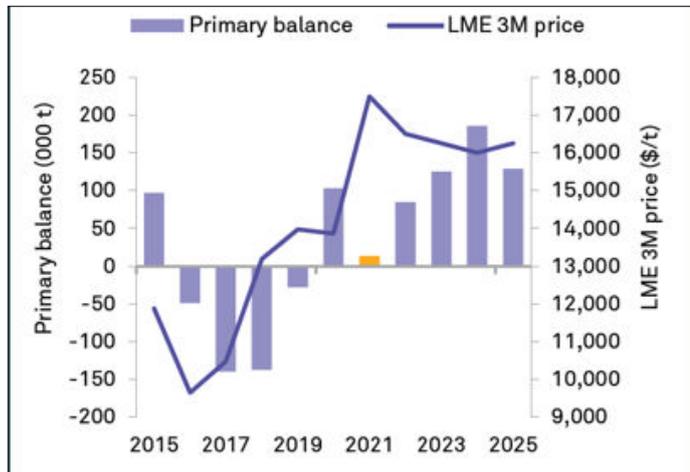
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Deficits were around 142kt for 2017 and 2018 respectively, preceding plummeting in demand that explains the lower deficit in 2019 of 34.5kt. After 3 years of destocking, Nickel inventories reached a 5-year low of 91kt in the end of 2019 (LME and SHFE combined). After the demand drop and consequent decrease in price due to the pandemic, stock levels started to escalate, reaching a peak of 272kt in Aug'20. A small nickel market surplus is expected in 2021.

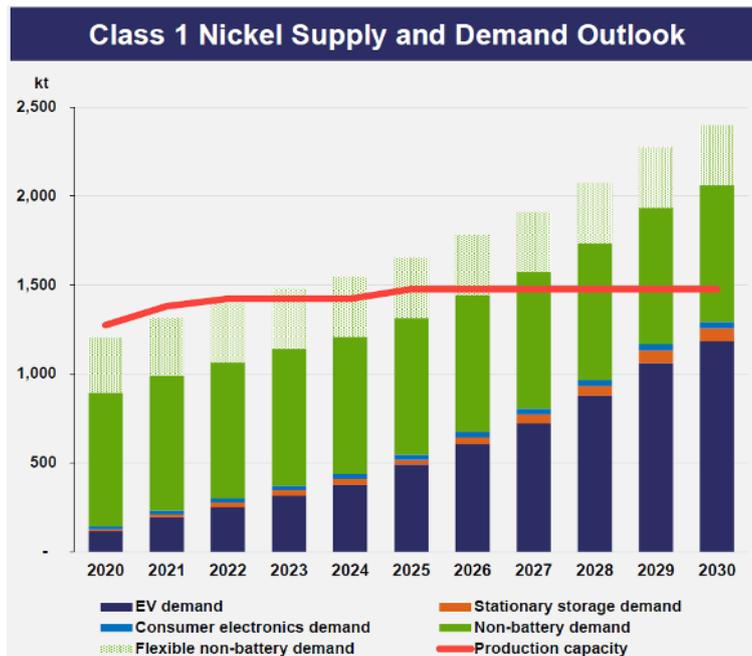


Data as of June 28, 2021

Sources: S&P Global Market Intelligence, LME

Despite growth to Indonesia Nickel Pig Iron (NPI) production beyond 2021, what remains appealing to us is that the current dynamic is yet to feel the potential impact of battery consumption demand for Ni for its use in EV batteries. Primary nickel demand from batteries is forecast to grow by ~700kt over the next decade. The relatively lower cost and higher energy density of increasingly Ni rich battery cathodes (Ni currently comprises ~80% of metals in lithium-ion batteries) further underpins the investment thesis for Ni Sulphide producers.

Bloomberg NEF articulate the potential impact to supply imbalances with their projected growth to marginal demand from the emerging EV market:



Source: IGO, adapted from Bloomberg NEF

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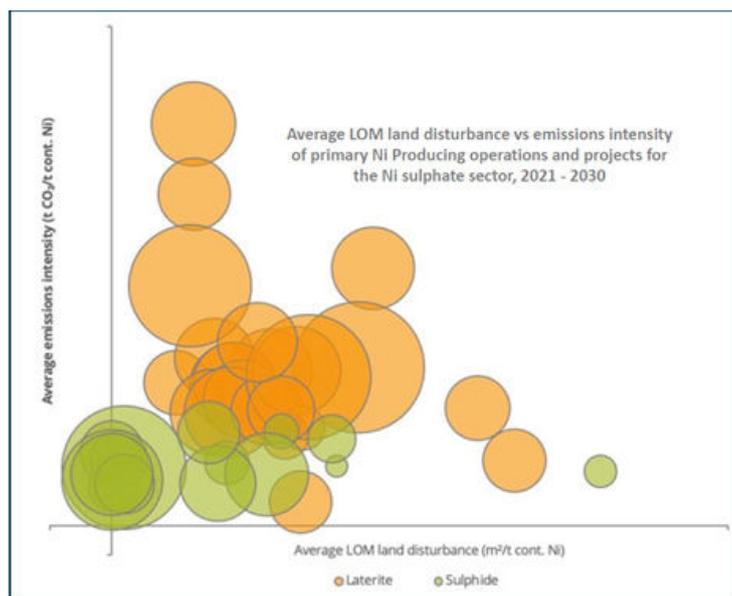
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What should be noted, is that despite the rapid growth in Indonesia NPI production, Bloomberg NEF's analysis considers this in its projections and yet still forecasts long term supply deficits. This becomes particularly interesting from the perspective that NPI is arguably (currently) focused upon servicing the stainless steel market.

Of note is the sustainability of Ni Sulphide operations in comparison to that of laterite ores. As detailed by the below comparison of average LOM land disturbance and carbon footprint of primary Ni producing operations for the Ni sulphate sector, we share MCR's view that Ni sulphide will increasingly become the only sustainable avenue to invest in Ni production.



Source: MCR, adapted from Roskill

Consequently, we currently distinguish between nickel sulphide and nickel laterite assets with a view to Research, for two reasons:

1. The relative capital intensity of laterite developments just to produce NPI; and
2. The relative simplicity (in terms of process flowsheet and therefore capital intensity) to create nickel sulphate from Ni sulphides.

We share the growing view that Ni sulphide assets and their owners will attract a relative premium over the medium term. It is our expectation that this will be directly reflected by a bifurcation of the nickel market whereby nickel in concentrates derived from sulphides will command a premium to lateritic sourced metal. We have already seen this indirectly in terms of effective pricing achieved by NIC.ASX from its share of NPI production from its interests in the Morowali Industrial Park.

From an ASX context, the direct exposures to material and mature Ni Sulphide assets are limited outside of current producers, Independence Group (IGO.ASX); Western Areas (WSA.ASX); and developers, Mincor Resources NL (MCR.ASX) and Panoramic Resources (PAN.ASX). All other sulphide exposures are ostensibly early stage greenfield explorers.

LM8 offers high grade underground inventories, infrastructure and commercial agreements as a basis for possible future mining operations. In addition, its tenure is proven and yet largely underexplored ground fertile for expanding and uncovering new mineable resources.

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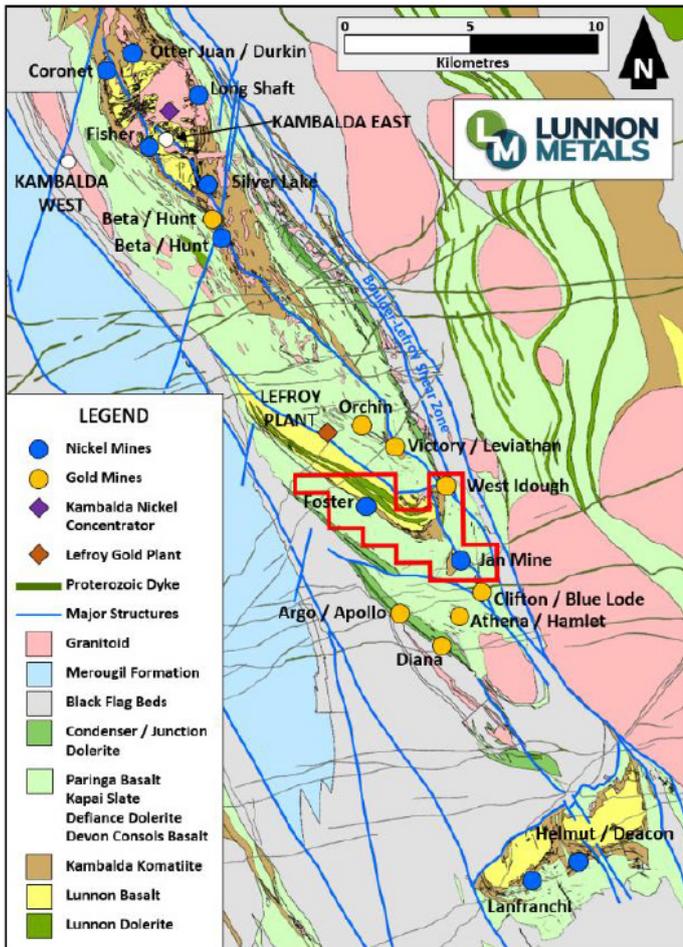
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Kambalda Nickel Project

Location

The KNP is located 70km south-southeast of Kalgoorlie within the Kambalda Nickel District, Eastern Goldfields, Western Australia. The KNP area is approx. 23km² comprising 19 contiguous mining tenements and surrounded by the tenements held by St Ives, playing host to >9km surface strike extent of contact between the Lunnon Basalt Formation in the footwall and the Silver Lake Peridotite komatiitic member in the immediate hanging wall.



Source: Lunnon Metals Ltd

Background

Although Gold Fields Ltd's acquisition was focused on the gold potential at St Ives, a number of existing nickel mines and rights to nickel were included in the acquisition of the Project area from WMC. LM8 acquired an interest in the KNP from St Ives (wholly owned subsidiary of Gold Fields Ltd) in 2014 through an Option and Joint Venture Agreement.

The KNP area hosts the historically producing underground nickel mines of Foster and Jan Shaft, which were closed in 1994 and 1986 respectively prior to the sale of the project area to Gold Fields Ltd in 2001. Consequently, there has been no meaningful nickel exploration since this time. Prior to closure, the Foster mine produced 2.4mt at an average grade of 2.57% Ni for 61kt. The Jan nickel mine, accessed via the Jan Shaft, produced 1.1mt at an average grade of 2.82% Ni for 30kt. Ore produced from both mines was delivered to the Kambalda Concentrator.

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Pre-IPO work

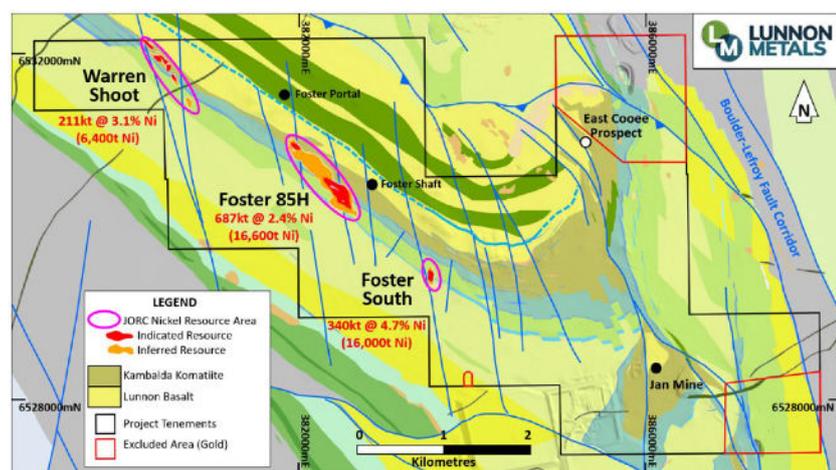
A significant amount of work has been undertaken on the project prior to the Company’s Initial Public Offering in Jun’21, with >A\$6.0m incurred on direct exploration expenditure, mostly on a significant program of re-sampling the extensive historical diamond drill core and pulp reject library available at Kambalda. This work successfully demonstrated the suitability of WMC data to underpin the estimation of JORC compliant mineral Resource base detailed below.

Existing Resources

	Cut-Off (% Ni)	Indicated			Inferred			Total		
		Tonnes	% Ni	Contained Ni	Tonnes	% Ni	Contained Ni	Tonnes	% Ni	Contained Ni
85H	1%	387,000	3.3	12,800	300,000	1.3	3,800	687,000	2.4	16,600
Foster South	1%	223,000	4.7	10,500	117,000	4.8	5,500	340,000	4.7	16,000
Warren	1%	136,000	2.7	3,700	75,000	3.7	2,700	211,000	3.1	6,400
Total		746,000	3.6	27,000	492,000	2.4	12,000	1,238,000	3.2	39,000

Source: Lunnon Metals Ltd

The KNP currently hosts a JORC compliant Resource base of 1.3mt grading at 3.1% Ni for 39kt Ni (69% Indicated). All JORC Resources currently sit within the immediate Foster mine area, being the Warren, 85H and Foster South shoots, which are considered to be potential underground Mineral Resources.



Source: Lunnon Metals Ltd

The KNP also hosts a historical inventory of ~32kt of JORC-non-compliant historical resources. Roughly half of these historical JORC non-compliant resources relate to remnant mineral inventory at the Jan mine (865kt @ 1.95% for 16.9kt Ni), which is considered a reasonable proxy for the known remnant mineralization. A review of the database and core should facilitate reclassification of a significant portion of these tonnes to JORC compliant resources over the coming months. We consequently view a Resource base containing 60-70kt Ni as an achievable and low risk, medium-term target.

The current strategy is to convert existing non-JORC 2012 nickel inventories to JORC classification as well as define additional mineable inventory to underpin the restart of mining. We would expect that conversion of historical resources will focus on historical resources proximal to the Foster mine given a likelihood of additional resources defined in this area having reasonable prospects of eventual economic extraction.

On-going Resource extension and infill drilling around 85H and Foster South initially will see incremental growth to Resource inventories over the next 18 - 24 months. This work could underwrite a maiden Reserve ahead of a potential DFS in early FY24.

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Existing Infrastructure

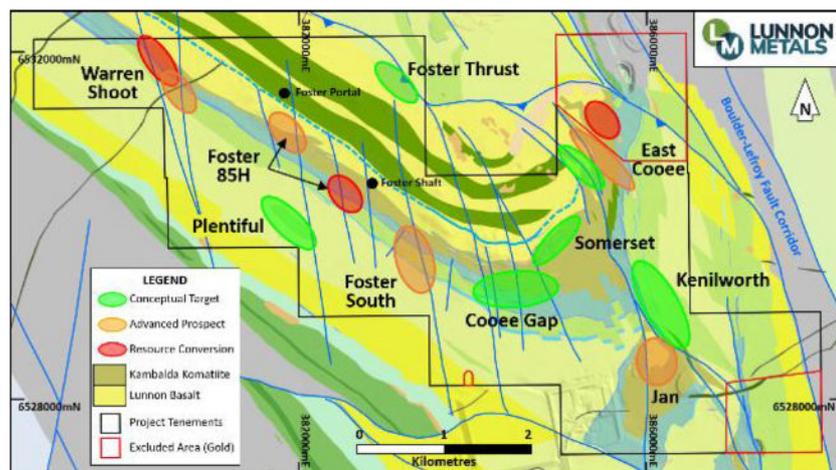
The KNP area can be accessed via well-established mine road infrastructure and lake causeway from the Kambalda township located 19km to the north. The main St Ives Administration office complex on the south side of Lake Lefroy is within 3.5km north of the Project area, while the BHP Nickel West concentrator plant is located 20km away to the north side of Lake Lefroy.

A suite of existing infrastructure exists at the Foster and Jan mines. The Foster mine hosts portal access (backfilled) to a 9km decline and 730m deep shaft, located 1.5km to the south. An unequipped headframe is located over the shaft. Both the Foster and Jan mines are closed and flooded to near surface. Both mines have graded dirt road access.

A 2-3mtpa St Ives gold processing plant was built atop of the historical Jan mine utilising a significant portion of the existing surface mine infrastructure for the new plant.

Exploration Potential

The KNP area is interpreted to contain at least 5 mineralised nickel channels, being the Warren Shoot, 85H, Foster South and East Cooee (2 channels). Re-interpretation of the litho-structural setting across the KNP indicates that there may also be other previously unidentified channels in the Cooee Gap area. The Company will explore these known and new conceptual nickel channels using techniques unavailable or not applied during the operational life of the historical mines but now considered industry standard.



Source: Lunnon Metals Ltd

The Warren Shoot is accessible via an independent decline branching off the main Foster decline near to the Foster portal. Limited development and stoping occurred before an uncontrolled water ingress required the area to be blocked off in 1985, with this portion of the mine later closed due to an uncontrollable influx of water that threatened to flood the entire Foster decline.

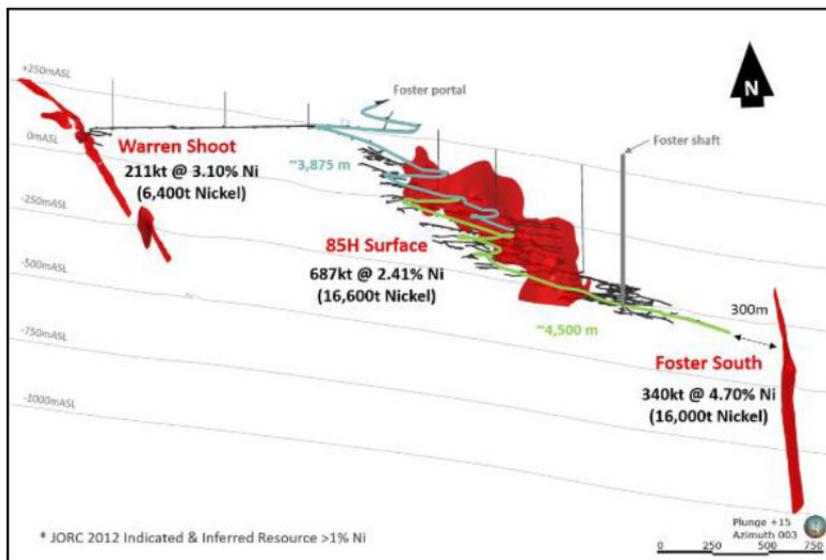
The Warren Shoot ore trough is believed to run sub-parallel to, potentially, the entirety of the Foster Main trough and may be a significant source of future nickel discovery in its own right. Compared to the Foster South mineralisation, the Warren Shoot area has been relatively well-drilled from the surface and from the access decline. Up-plunge extensions are guided to be the most likely source of Resource growth at the Warren Shoot.

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Lunnon Metals Ltd

(LMS \$0.53) Speculative Buy - Initiation of Coverage



Source: Lunnon Metals Ltd

Foster Main / 85H was mined between 1986 and 1994. Trough systems accessed underground at the mine produced 2.4mt at an avg. grade of 2.57% Ni for 61kt Ni, with peak Ni production equivalent to up to 30% of the feed at the Kambalda Concentrator at its peak. The central and upper flank areas of the main mine are considered the most prospective for extensional discovery opportunity.

The **Foster South** trough is believed to either be a fault offset segment of the main Foster trough system rotated to a more vertical plunge, or a potential new trough in its own right. The high-grade massive sulphide is open up and down plunge and is located just 300m beyond the end of the current main decline.

No lower Ni cut-off grade was applied to the resource reporting; however, we note the lowest nickel grade estimated in the mineralised lodes is 3.3% Ni.

The Jan Shaft comprises a series of deeply incised, vertical plunging troughs and associated extensive hanging wall shoots. The Jan Shaft was one of the earlier nickel mines to be shut by WMC in 1986 after 1.1mt at an avg. grade of 2.82% Ni for 30kt of Ni was produced.

Defined nickel shoots were mined to ~560m below surface with significant high-grade nickel sulphide intercepts recorded beneath the mine workings. We note significant potential to recover remnant mineralisation at the Jan Shaft, with a historical JORC non-compliant mineral inventory of 865kt @ 1.95% for 16.9kt Ni remaining to be converted to JORC 2012 status.

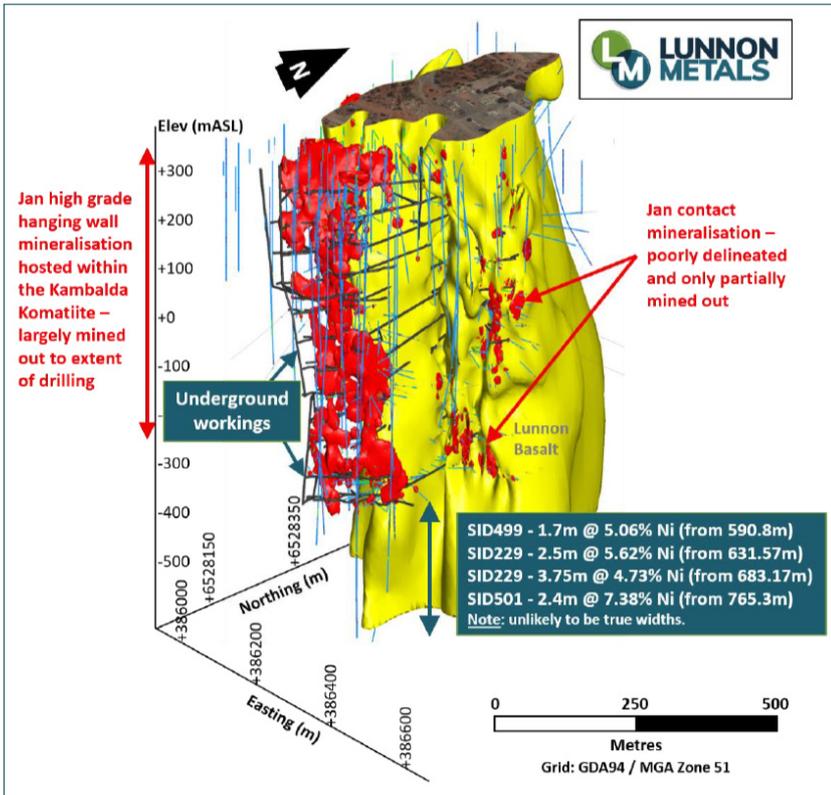
Testing of potential extensions to the main Jan mineralisation at depth is difficult due to the orientation of the required surface drill position. This area remains open at depth. Immediate future activities at Jan will focus on validating the WMC remnant inventory.

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Source: Lunnon Metals Ltd

In addition to near-mine production targets, there is potential for near-surface nickel sulphide mineralisation in the East Cooee region. East Cooee mineralisation is located 2km to the north-northwest of the old Jan Shaft site and within the favorable komatiite stratigraphy which underlies the project. East Cooee comprises a considerable quantity of hangingwall style mineralisation and anomalism that was subject to sporadic phases of drill testing by WMC.

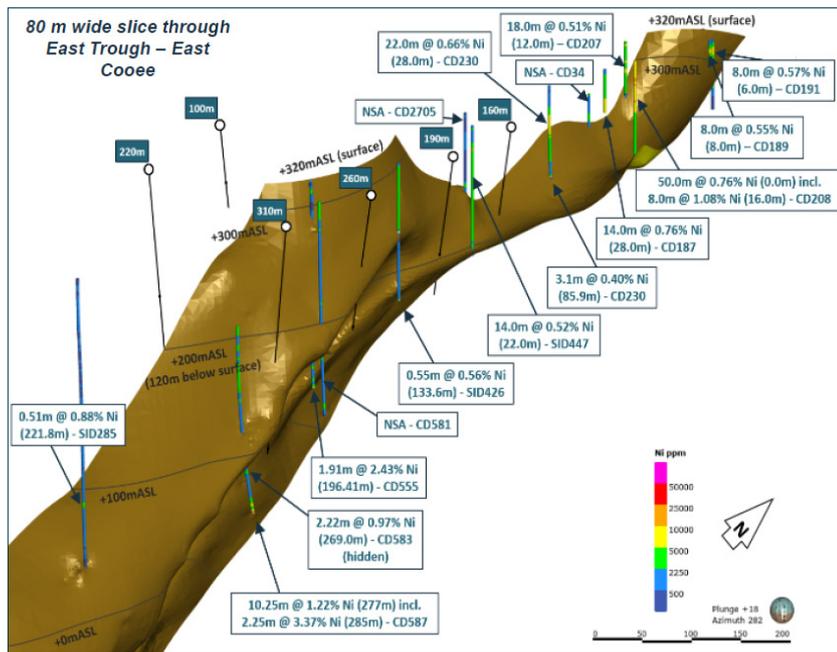
Two adjacent deeply embayed troughs have been interpreted to be present, with only limited diamond or RC holes drilled at suitable orientations to test these features (the troughs have essentially been clipped by historical drilling). Of the two troughs modelled, the first (West) trough is poorly tested with respect to potential mineralisation. The second parallel, down-dip, trough has numerous sparsely drilled mineralised intercepts containing >3% Ni content. The combined tonnage and grade potential of the defined exploration target for East Cooee has been estimated to be in the range of 500-750kt with an avg. grade of 1.25% to 2.5% Ni.

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Source: Lunnon Metals Ltd

The **Coee Gap** contains the strongest and highest magnitude nickel-in-soils geochemical anomalism within the project over a large 600-800m gap in WMC fencelines. The area also records anomalous thickness of the hangingwall ultramafic rocks, due to either structural thickening or thick original komatiite flows, which both indicate conceptual concealed structural or trough style mineralisation. Framework drilling will initially be undertaken and will be followed by DHEM surveying to define/locate possible new mineralised trough(s).

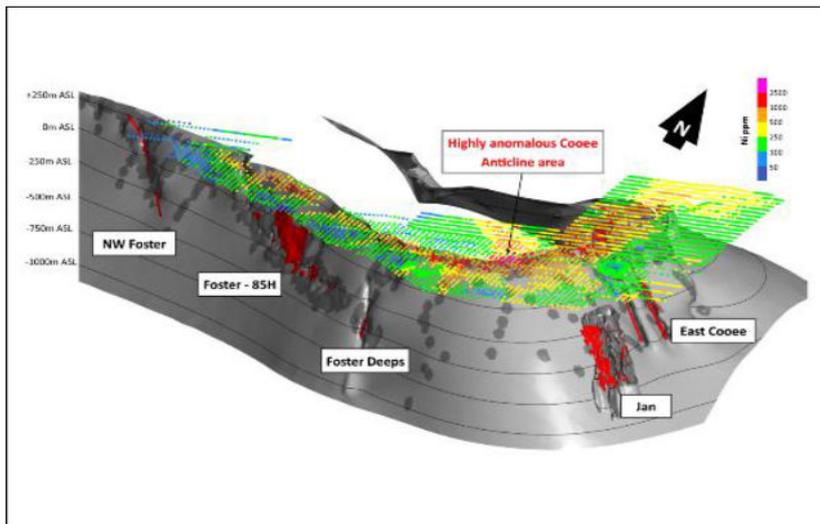


Figure 3-5 Perspective view (down to north-east) of the Coee Gap Ni in soils anomaly over a 3D Lunnon Basalt surface

Source: Lunnon Metals Ltd

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Lunnon Metals Ltd

(LM8 \$0.53) Speculative Buy - Initiation of Coverage

Risks

Market Risk – General market risk.

Commodity Price – LM8 is a resource exploration company. Market valuation is inextricably linked to prevailing resource sector macro and to the underlying commodity price. As the Company commences production, its earnings directly correlate to (primarily) Ni price.

Exploration Risk – LM8's strategy relies upon brownfield and to a lesser degree, greenfield exploration success for our base case valuation. Exploration activities are inherently high risk with no guarantee of any success.

Financing Risk - The planned development restart requires upfront capital. LM8 does not currently have sufficient capital available to meet our assumed quantum. We have made appropriate assumptions regarding amount, cost and sources in our analysis, however, these assumptions are subject to market risk and credit availability.

Mine Re-commencement Risk – Historical mines present additional specific risks relating to the circumstances of the mine including (but not limited to) water ingress, quality of original ground support and the extent and reliability of the surveying of past development and mining activity, which may be exacerbated by the time that has passed.

The Foster mine is known to have flooded to within ~17m of surface. Programs to dewater, excavate the entrance and re-enter these mines may be potentially subject to inherent uncertainty regarding the volume, quality and extent of the flooded workings, the rate of draw down and thus the overall costs to complete that work. Once dewatering is complete, the nature of the rock mass encountered and the requirement to support it and make it safe to current regulatory requirements is another uncertainty that may cause significant divergence from forecasts.

Resource Conversion Risk – There is a degree of uncertainty related to the estimation of Mineral Resources. LM8's strategy is partially reliant on the conversion of currently JORC non-compliant Resources to JORC compliant status. Failure to convert a sufficient portion of these Resources may adversely impact future development and mining plans.

Foreign Exchange Risk – The international price of nickel is typically denominated in US Dollars, whereas the income and expenditure of the Company with respect to the KNP will be denominated in AUD. Adverse foreign exchange fluctuations may negatively impact future cash flows from a restart of operations.

COVID-19 Risk – The current COVID-19 pandemic is likely to continue to have a significant impact on global capital markets, commodity prices and foreign exchange rates. While immaterial in its impact to date, it may have an adverse impact on the Company's operations, financial position and future prospects in addition to the ability of Company personnel to travel to the project and execute the planned activities.

We initiate coverage with a Speculative Buy rating, primarily reflective of the operating parameter uncertainties and timeline for execution of the current strategy.

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Lunnon Metals Ltd

(LMS \$0.53) Speculative Buy - Initiation of Coverage

EUROZ HARTLEYS

Capital Structure

The capital structure of the Company is as follows:

Capital Structure	
Fully Paid Ordinary Shares	141,247,065
Options	5,301,738
Fully Diluted Share Capital	146,548,803

Top 20 Shareholders

Position	Holder Name	Shares Held (m)	% Held
1	ST IVES GOLD MINING COMPANY PTY LIMITED	44.7	31.7%
2	BOLONG (AUSTRALIA) INVESTMENT MANAGEMENT PTY LTD	18.3	13.0%
3	AURORA PROSPECTS PTY LTD	9.7	6.9%
3	MAINGLOW PTY LTD	9.7	6.9%
4	FAN RONG MINERAL CONSULTING PTY LTD	6.1	4.3%
5	ZERO NOMINEES PTY LTD	2.5	1.7%
6	NATIONAL NOMINEES LIMITED	1.7	1.2%
7	NUB HOLDINGS PTY LTD	1.6	1.2%
8	BT PORTFOLIO SERVICES LIMITED	1.6	1.1%
9	BNP PARIBAS NOMINEES PTY LTD	1.3	0.9%
10	URBAN LAND NOMINEES PTY LTD	1.2	0.8%
11	TROCA ENTERPRISES PTY LTD	1.1	0.8%
12	BUDWORTH CAPITAL PTY LTD	1.1	0.8%
13	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	1.1	0.8%
14	PRECISION OPPORTUNITIES FUND LTD	1.0	0.7%
14	SEASCAPE CAPITAL PTY LTD	1.0	0.7%
15	NERO RESOURCE FUND PTY LTD	1.0	0.7%
16	JJ METAL RESOURCES PTY LTD	0.9	0.7%
17	ORIMCO RESOURCE INVESTMENTS PTY LTD	0.6	0.4%
18	SCORPIUS HOLDINGS PTY LTD ATF THE TWIGGER FAMILY TRUST	0.6	0.4%
19	AARON CHARLES WEHRLE	0.5	0.3%
20	MRS TARA ELIZABETH KILEY & MR ADAM LEE KILEY	0.4	0.3%
	TOTALS	107.5	76.1%
	Total Issued Capital	141.2	100.0%

As of 6th August 2021

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Lunnon Metals Ltd

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EUROZ HARTLEYS

Board of Directors

Liam Twigger

Non-Executive Chairperson, B.Econ, CPA, GDipBus

Shares held: 600,000

Options held: 475,000

Liam is Deputy Chair of Argonaut. Liam is Chairman of Solgold Plc, a London and TSX listed resources company focused on the discovery, definition and development of copper and gold deposits in Ecuador. He is also a Non-Executive Director of the Western Australian Government owned Gold Corporation (trading as the Perth Mint). Liam holds a Graduate Diploma in Business, a Bachelor of Economics and is a Certified Practising Accountant. The Board considers Mr Twigger is currently an independent Director.

Ian Junk

Non-Executive Director, B.Eng (Hons) (Mining), MAusIMM

Shares held: 9,678,565

Options held: Nil

Ian has a Bachelor of Engineering (Mining) (Hons) from the WA School of Mines and has a detailed understanding and long history with nickel mining in Kambalda. In the past, having worked as a Mine Manager at various Kambalda nickel mines for Western Mining Corporation (WMC), he then played an integral role in the revitalisation of many WMC Kambalda nickel mines when they were divested in the early 2000s. Ian, along with his brother Leigh, and their company Donegal Resources, initiated the joint venture with Mincor Resources at the Miitel, Mariners, Wannaway and Redross nickel mines, and subsequently executed another joint venture with Panoramic Resources at the Lanfranchi nickel mine. Donegal Resources also managed and operated the Carnilya Hill nickel mine when that was sold by WMC to View Resources. Mr. Junk has played significant roles in the exploration, development and commissioning of various other mining operations around Australia, through his own mining entities and contracting companies. The Board considers Mr. Junk is not currently an independent Director.

Ashley McDonald

Non-Executive Director, B.Comm, LLB

Shares held: Nil

Options held: Nil

Ashley is the nominee for Gold Fields Limited. He is currently Vice President Corporate Development for Gold Fields and has played a key role in a number of the company's key growth transactions including acquiring the Granny Smith, Lawlers and Darlot gold mines from Barrick in 2013, acquiring a 50% interest in the Gruyere gold mine in 2016 and evaluating the various funding options for Gold Fields key development asset Salares Norte (capex US\$830M) in Chile in 2020. An experienced and skilled M+A practitioner with strong financial and analytical skills, Mr. McDonald is also a legal practitioner with more than 20 years' experience in Corporate and Resources Law and was part of the legal team that assisted Gold Fields in its acquisition of St Ives and Agnew in 2001. Mr. McDonald is an admitted legal practitioner holding a Bachelor of Laws (Hons) and Bachelor of Commerce (Accounting) from Murdoch University. The Board considers Mr. McDonald is not currently an independent director.

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Management

Edmund Ainscough

Managing Director, B.Sc (Hons), FGeoSoc, MAusIMM

Shares held: 1,629,742

Options: 1,700,000

Ed led the acquisition of joint venture rights to the Foster/Jan Nickel Project (in 2014) and the acquisition of the Great Southern project (in 2016) from Silver Lake Resources now owned by Medallion Metals Ltd, of which he is also a Non-Executive Director. A geologist by training, he has extensive operational experience (gold, copper and tin) in Australia, Africa, the UK and New Zealand. He was previously a senior member of the Gold Fields executive team in Australia where he held a key business development role reporting to the Executive Committee until 2008. He was the last Chief Geologist for WMC at the St Ives Gold Mine, overseeing a \$25 million per annum drill budget and the addition of over 2.0 million ounces to reserves during his tenure. Prior to founding Lunnon Metals Ltd's forebear, ACH Nickel, he was at PCF Capital Group where he advised resource sector companies on corporate, merger and acquisition, and valuation assignments.

Aaron Wehrle

Exploration & Geology Manager, B.Sc (Hons), MAusIMM

Aaron is a geologist with 25 years' experience in Australia, Canada and the Philippines. He has significant directly relevant operational experience having worked for WMC at St Ives in the Kambalda district for a number of years in a variety of production roles before being promoted to the site management team as Exploration Manager. In this role under new owner Gold Fields Ltd, he played a key part in the ramp up of drilling activities to dramatically increase the gold resource base in support of a new 4.8mtpa processing facility. His career progressed on to resource definition and delineation responsibilities with time spent in Meliadine, Nunavut, Canada (gold) prior to returning to Australia as a Regional Geologist in the company's Perth based exploration team. He then moved to the Philippines where he was responsible for the geological modelling and definition of the Far South East (gold-copper) Deposit based on site and in Manila. Mr Wehrle has worked for the Company since early 2015.

Jessamyn Lyons

Company Secretary

Jessamyn is a Chartered Secretary, an Associate of the Governance Institute of Australia and holds a Bachelor of Commerce from the University of Western Australia with majors in Investment Finance, Corporate Finance and Marketing. Ms. Lyons is also a Director of Everest Corporate and Company Secretary of Dreadnought Resources Limited (ASX: DRE), Doriemus PLC (ASX: DOR), Medallion Metals Limited (ASX: MM8), Alchemy Resources Limited (ASX: ALY), Stealth Global Holdings Ltd (ASX:SGI), Ragnar Metals Limited (ASX: RAG) and Joint Company Secretary of Los Cerros Limited (ASX: LCL). Ms. Lyons also has 15 years of experience working in the stockbroking and banking industries and has held various positions with Macquarie Bank, UBS Investment Bank (London) and more recently, Patersons Securities.

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